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Mexico

Grain and Feed

Annual Grain & Feed Report

2008

Approved by:
Suzanne Heinen
U.S. Embassy

Prepared by:
Benjamin Juarez, Gabriel Hernandez, Erich Kuss and Mark Ford

Report Highlights: Mexico's total imports for grain and feed will likely continue to increase in MY 2008/09 as a result of the dynamic performance of the livestock sector. High grain prices will likely encourage producers to expand production in sorghum and corn. Corn production is forecast at 22.750 million metric tons (MMT) for MY 2008/09, or one percent greater than the previous year, while sorghum production is estimated at 6.45 MMT, an increase of 150,000 MT. The first ethanol plant in Mexico is scheduled to open May 2008 and will use nearly 270,000 MT for production. Dry bean production is forecast at 1.2 MMT while wheat production is forecast to increase slightly compared to the previous year. However, wheat exports are forecast to increase 16 percent due to record high international prices and low world stocks. Rice production for MY 2008/09 is forecast to remain at the previous year's estimated production of 185,000 MT.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Mexico City [MX1]
[MX]

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SECTION I. SITUATION AND OUTLOOK

Corn: Corn production is forecast at 22.750 million metric tons (MMT) for MY 2008/09 (Oct-Sep), or one percent greater than the revised estimated production of the previous year. This projected increase is attributed to a slight increase in harvested area as well as higher yields assuming there will be normal weather conditions. Production estimates for MY 2006/07 and MY 2007/08 reflect the latest official Mexican government data. Imports are forecast to increase to 11.4 MMT driven by population growth and the expanded demand from the livestock and starch sectors. Similarly, total corn consumption is forecast to increase to approximately 34.1 MMT, a 2.1 percent increase over last year. The expected increase in total corn consumption reflects an increase in human and industrial consumption as well as feed consumption. The import estimate for MY 2007/08 increased due to lower domestic production than previously estimated. At the same time, the import total for MY 2005/06 was revised upward, reflecting official data from the Economy Secretariat (SE).

Due to policy changes that took place January 1, 2008, with the full implementation of the North American Free Trade Agreement (NAFTA), there is no longer a need to import cracked corn. In the past, buyers imported cracked corn as a substitute for traditional yellow corn imports to bypass the quota system under NAFTA's implementation phase. According to several industry sources, the Mexican corn market is already integrated with the United States' market because the GOM accelerated the transitional period by expanding tariff-free quotas to meet the domestic demand. Although over-quota tariffs were in place, the impact of the tariff quota elimination is expected to be modest since Mexico is expected to continue to be self sufficient in white corn. Even though there is some substitutability between yellow and white corn, yellow corn is preferred for animal feed, and the demand has been increasing due to the dynamic performance of the livestock sector.

Sorghum: MY 2008/09 sorghum production is estimated at 6.45 MMT, an increase of 150,000 MT over last year's revised estimated production. This increase is due to an expansion of harvested area in response to higher sorghum prices. Imports are forecast to increase slightly in MY 2008/09 to 1.85 MMT as feed millers and livestock producers prefer importing yellow corn instead of sorghum, since the current price differential between the two grains favors corn. The MY 2007/08 import estimate has decreased to 1.8 MMT, due to higher-than-previously estimated domestic production. The reduction in imports is also due to the price increase in imported sorghum.

Dry Beans: The production estimate for MY 2007/08 was lowered to 1.105 MMT, due to dry weather conditions during the spring/summer crop. For MY 2008/09, production is forecast to increase to approximately 1.2 MMT, assuming an increase in harvested area and normal weather conditions. Imports in MY 2008/09 are expected to slightly increase to 100,000 MT. The estimate for MY 2006/07 and MY 2007/08 imports have been adjusted upward and downward, respectively, based on official data.

Wheat: Total Mexican wheat production for MY 2008/09 is forecast at 3.55 MMT, slightly higher than the previous year's revised estimate. Imports for MY 2008/09 are forecast at 3.65 MMT, 1.3 percent higher than the previous year's revised estimate. This increase is largely driven by the Government of Mexico's intention to open the border to imports from all countries at preferential tariff rates in an effort to avoid increases in domestic prices of wheat-based products. However, wheat exports for MY 2008/09 are forecast to increase 16 percent to 664,000 MT, due to record high international prices and low world stocks.

Rice: Rice production for MY 2008/09 is forecast to remain at the previous year's estimated levels of 185,000 MT (milled basis), mainly due to the same amount of area planted, a decaying agricultural infrastructure, land degradation, untimely financial support, and

increased imports. At best, rice production will remain stable or will gradually increase over the next few years. Harvested area and production for MY 2006/07 remain unchanged, reflecting official data. Imports in MY 2008/09 are forecast to remain at previous levels because of insufficient domestic production relative to consumer demand and since exporting countries are diversifying their export patterns in search of new market niches. Even though production slightly increased in MY 2007/08, rice imports were revised upward since there was not an ample supply to cover consumer demand. Imports for MY 2006/07 reflect official data.

SECTION II. STATISTICAL TABLES

PS&D CORN

PSD Table									
Country	Mexico								
Commodity	Corn								(1000 HA)(1000 MT)(MT/HA)
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006			10/2007			10/2008	
Area Harvested	7,400	7,400	7,375	7,750	7,750	7,400	0	0	7,450
Beginning Stocks	2,707	2,472	2,707	3,151	2,172	3,079	3,226	2,272	2,839
Production	22,000	22,000	22,354	23,200	23,200	22,530	0	0	22,750
MY Imports	8,944	8,000	8,526	10,200	10,200	10,800	0	0	11,400
TY Imports	8,944	8,000	8,526	10,200	10,200	10,800	0	0	11,400
TY Imp. From U.S.	8,893	8,000	8,526	0	35,572	10,800	0	0	11,400
Total Supply	33,651	32,472	33,587	36,551	0	36,409	3,226	2,272	36,989
MY Exports	200	0	208	25	0	170	0	0	200
TY Exports	200	0	208	25	0	170	0	0	200
Feed Consumption	14,700	14,700	14,700	17,500	17,500	17,600	0	0	18,100
FSI Consumption	15,600	15,600	15,600	15,800	15,800	15,800	0	0	16,000
Total Consumption	30,300	30,300	30,300	33,300	33,300	33,400	0	0	34,100
Ending Stocks	3,151	2,172	3,079	3,226	2,272	2,839	0	0	2,689
Total Distribution	33,651	32,472	33,587	36,551	35,572	36,409	0	0	36,989
Yield	2.972973	2.972973	3.031051	2.993548	2.993548	3.044595	0	0	3.053691

Not official USDA data

PS&D SORGHUM

PSD Table									
Country	Mexico								
Commodity	Sorghum								(1000 HA)(1000 MT)(MT/HA)
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006			10/2007			10/2008	
Area Harvested	1,550	1,550	1,595	1,600	1,400	1,750	0	0	1,800
Beginning Stocks	553	553	553	217	403	245	417	303	245
Production	5,750	5,750	5,810	6,000	5,200	6,300	0	0	6,450
MY Imports	1,914	2,100	1,882	2,000	3,000	1,800	0	0	1,850
TY Imports	1,914	2,100	1,882	2,000	3,000	1,800	0	0	1,850
TY Imp. From U.S.	1,914	2,100	1,882	0	3,000	1,800	0	0	1,850
Total Supply	8,217	8,403	8,245	8,217	8,603	8,345	417	303	8,545
MY Exports	0	0	0	0	0	0	0	0	0
TY Exports	0	0	0	0	0	0	0	0	0
Feed Consumption	7,900	7,900	7,900	7,700	8,200	8,000	0	0	8,200
FSI Consumption	100	100	100	100	100	100	0	0	100
Total Consumption	8,000	8,000	8,000	7,800	8,300	8,100	0	0	8,300
Ending Stocks	217	403	245	417	303	245	0	0	245
Total Distribution	8,217	8,403	8,245	8,217	8,603	8,345	0	0	8,545
Yield	3.709677	3.709677	3.642633	3.75	3.714286	3.6	0	0	3.583333

Not official USDA data

PS&D DRY BEANS

PSD Table									
Country	Mexico								
Commodity	Beans								(1000 HA)(1000 MT)(MT/HA)
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		01/2006			01/2007			01/2008	
Area Harvested	0	1,680	1,660	0	1,640	1,480	0	0	1,560
Beginning Stocks	0	65	65	0	65	213	0	45	75
Production	0	1,260	1,331	0	1,230	1,105	0	0	1,200
MY Imports	0	110	129	0	135	90	0	0	100
TY Imports	0	110	129	0	135	90	0	0	100
TY Imp. From U.S.	0	105	105	0	125	73	0	0	80
Total Supply	0	1,435	1,525	0	1,430	1,408	0	45	1,375
MY Exports	0	10	12	0	5	18	0	0	10
TY Exports	0	10	12	0	5	18	0	0	10
Feed Consumption	0	0	0	0	0	0	0	0	0
FSI Consumption	0	1,360	1,300	0	1,380	1,315	0	0	1,330
Total Consumption	0	1,360	1,300	0	1,380	1,315	0	0	1,330
Ending Stocks	0	65	213	0	45	75	0	0	35
Total Distribution	0	1,435	1,525	0	1,430	1,408	0	0	1,375
Yield	0	0.75	0.801807	0	0.75	0.746622	0	0	0.769231

Not official USDA data

PS&D WHEAT

PSD Table									
Country	Mexico								
Commodity	Wheat								(1000 HA)(1000 MT)(MT/HA)
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		7/2006			7/2007			7/2008	
Area Harvested	570	570	570	600	575	677	0	0	680
Beginning Stocks	312	312	312	414	340	340	0	0	444
Production	3,240	3,240	3,240	3,400	3,260	3,534	0	0	3,550
MY Imports	3,610	3,549	3,549	3,600	3,600	3,600	0	0	3,650
TY Imports	3,610	3,549	3,549	3,600	3,600	3,600	0	0	3,650
TY Imp. From U.S.	2,353	2,289	2,289	0	2,295	2,501	0	0	2,600
Total Supply	7,162	7,101	7,101	7,414	7,200	7,474	0	0	7,644
MY Exports	548	536	536	550	550	570	0	0	664
TY Exports	548	536	536	550	550	570	0	0	664
Feed Consumption	100	200	200	100	200	200	0	0	190
FSI Consumption	6,100	6,025	6,025	6,250	6,050	6,260	0	0	6,390
Total Consumption	6,200	6,225	6,225	6,350	6,250	6,460	0	0	6,580
Ending Stocks	414	340	340	514	400	444	0	0	400
Total Distribution	7,162	7,101	7,101	7,414	7,200	7,474	0	0	7,644
Yield	5.438596	5.467372	5.684211	5.666667	5.669565	5.220089	0	0	5.220588

Not official USDA data

PS&D RICE

PSD Table									
Country	Mexico								
Commodity	Rice, Milled								(1000 HA)(1000MT)(MT/HA)
	2006 Revised			2007 Estimate			2008 Forecast		
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New
Market Year Begin		10/2006			10/2007			10/2008	
Area Harvested	73	52	52	60	54	55	0	0	55
Beginning Stocks	159	180	180	181	146	146	203	149	200
Milled Production	225	181	181	200	183	185	0	0	185
Rough Production	337	271	271	300	274	277	0	0	277
Milling Rate (.9999)	6667	6667	6667	6667	6667	6667	0	0	6667
MY Imports	600	535	535	625	570	650	0	0	650
TY Imports	600	535	535	625	570	650	0	0	650
TY Imp. From U.S.	0	535	535	0	570	649	0	0	649
Total Supply	984	896	896	1006	899	981	203	149	1,035
MY Exports	3	0	0	3	0	12	0	0	10
TY Exports	3	0	0	2	0	12	0	0	10
Total Consumption	800	750	750	800	750	769	0	0	825
Ending Stocks	181	146	146	203	149	200	0	0	200
Total Distribution	984	896	896	1006	899	981	0	0	1,035

Not official USDA data

SECTION III. NARRATIVE ON SUPPLY, DEMAND, POLICY & MARKETING

CORN

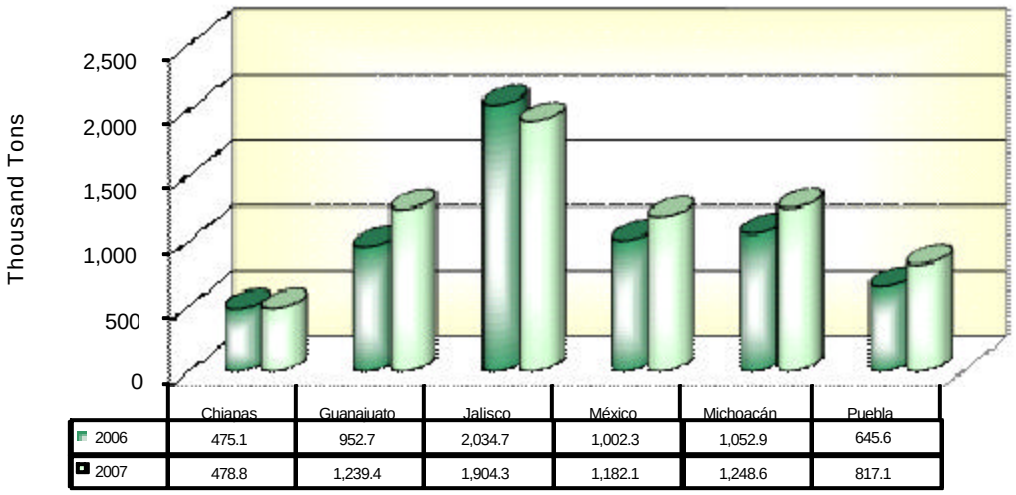
Production

Total Mexican corn production in MY 2008/09 (Oct/Sept) is forecast to increase to 22.750 MMT (million metric tons), assuming normal weather conditions and a slight increase in harvested area. Estimated production for MY 2007/08 has been revised downward to 22.5 MMT due to recent official government information. However, it should be noted that this production level is approximately 200,000 MT higher than the revised estimate of MY 2006/07. This reduction is attributed to unfavorable growing conditions this past year, which included erratic rains during the growing season. In other states, such as Veracruz, areas were damaged by excess rain that caused some flooding problems.

For the 2007 spring/summer crop, the production, as of December 31, 2007, was approximately 4.4 percent higher compared to the same crop a year ago. The main producing states contributing to this increase were: Guanajuato, with 30 percent higher production, Puebla with a 26.6 percent increase, Michoacán with 18.6 percent, Mexico with 17.9 percent, and Chiapas with a slight increase of 0.8 percent. Among the main producing states, only Jalisco registered a year-over-year decrease. As already mentioned, the reason for such a decline was the irregular rains that reduced yields. As of December 31, 2007, the total corn production land damaged by these irregular rain patterns was 756,000 hectares in the 2007 spring/summer crop compared to 499,000 hectares the previous year. Below is a graph illustrating the difference in the 2006 vs. 2007 spring/summer crop production in the main producing states, with data as of December 31, 2007.

2006 - 2007 SPRING/SUMMER CYCLE

CORN PRODUCTION COMPARISON



	Chiapas	Guanajuato	Jalisco	México	Michoacán	Puebla
2006	475.1	952.7	2,034.7	1,002.3	1,052.9	645.6
2007	478.8	1,239.4	1,904.3	1,182.1	1,248.6	817.1

Source: SNIIM with SAGARPA data -SIAP; December 2006 -2007

The MY 2006/07 harvested area and production estimates were revised downward and upward, respectively, reflecting official data issued by the Secretariat of Agriculture, Livestock, Rural Development, Fishing and Food (SAGARPA).

The average yield for the MY 2008/09 corn crop in Mexico is expected to reach 3.053 MT/ha, a very slight increase over the MY 2007/08 average yield, assuming normal rainfall and weather conditions. Yields continue to vary significantly throughout the country, depending in large part on the level of technology used. Similarly, the predominant factor in corn production continues to be weather conditions, given that over 65 percent of Mexico's corn production area is non-irrigated.

Corn production for the 2007/08 fall/winter cycle is estimated at 6.6 MMT, nearly 2.2 percent higher than the previous year. The forecasted increase in production for this cycle is attributable to an increase in planted area. Sinaloa continues to be the main source of commercial white corn in Mexico for the fall corn crop, representing approximately 72 percent of total fall/winter corn production. Moreover, Sinaloa's corn production, which is almost all irrigated, accounted for more than 20 percent of total domestic production. Practically all of the corn produced in Sinaloa is consumed in other states. Harvest is expected to occur in May and June. At this point in the season, the estimated average yield for the 2007/08 fall/winter crop cycle is forecast to be 5.544, which is lower than last year's 5.694 MT/ha when weather conditions were very favorable.

Mexico's corn growers vary substantially—from small, rain-fed, subsistence plots with very low yields and high costs, to large, irrigated farms with yields and costs comparable to those of U.S. growers. There is an extreme range in terms of technology use, growing conditions, costs, and competitiveness, and less than five percent of Mexican corn farmers are commercial growers. For example, of the roughly 1.9 million corn growers registered by the GOM under the PROCAMPO roster in 2004 (see table below), more than 55 percent were smaller than two hectares and only four percent were larger than 10 hectares. Even over the course of one year the data clearly reflects a trend towards decreasing numbers of small producers and increasing numbers of larger producers in Mexico. The fragmentation of production is still one of the main constraints on productivity in the corn sector.

SIZE DISTRIBUTION OF MEXICO'S CORN PRODUCERS

Size of plot	Number of Growers	
(Hectares)	2003	2004
1 or less	530,392	524,811
1 – 2	549,201	522,086
2 – 5	577,594	543,836
5 – 10	207,139	201,416
10 – 18	45,363	45,094
18 – 50	23,882	25,841
50 – 100	3,788	4,359
More than 100	1,155	1,507
Total	1,938,514	1,868,950

Source: Apoyos y Servicios a la Comercialización (ASERCA), 2006.

SAGARPA continues to publish the estimated costs of corn production as well as the costs per hectare for various states (see MX7024). However, it should be noted, this cost information has only been updated for a few states. The table is below.

CORN PRODUCTION COSTS FOR SEVERAL STATES & CROP CYCLES
(PESOS PER HECTARE)

State	2005 Spring/ Summer	2005/06 Fall/ Winter	2006 Spring/ Summer	2006/07 Fall Winter	2007 Spring Summer	2007/08 Fall Winter
Sinaloa*	5,697.00	5,592.20	7,272.3	8,012.04	7,406.60	8,797.34
Veracruz	4,930.00	5,512.00	10,616.09	10,048.01	16,249.6	14,334.00
Oaxaca	7,259.23	N.A.	5,209.02	N.A.	10,172.02	N.A.

* *Irrigated-Area*
Exchange Rate as of February 19, 2008: U.S. $1.00 = 10.85 Pesos
Source: SIAP/SAGARPA

As already mentioned, one of the main characteristics of corn production in Mexico is the high degree of land fragmentation. According to SAGARPA, in 2003 there were 1.9 million corn growers, and more than 85 percent of those growers had landholdings smaller than five hectares. In Veracruz and Oaxaca, for example, more than 75 percent of growers were smaller than two hectares. Even in Sinaloa and Jalisco, the states with the least fragmentation, only 57 percent were larger than five hectares.

Transportation, storage, and marketing are another source of unnecessary high costs and bottlenecks in the Mexican corn sector. Long distances from fields to consumption centers, reliance on expensive trucking costs, inadequate road infrastructure, and the lack of direct railroad links at key transport hubs such as ports and markets make it difficult to create an integrated market where stocks can be moved economically between different production/consumption centers. Furthermore, Mexico has a substandard storage network that lacks effective instruments for financing inventories in warehouses. The competitiveness of Mexican growers has also been reduced relative to U.S. imports because almost all imports come via rail and/or ship, whereas most internal movement of Mexican production is by higher-cost trucking.

Under PROCAMPO, (the Mexican domestic agricultural support program) a flat-rate payment on corn, sorghum, wheat, rice, and dry beans was provided to farmers for the 2007 spring/summer crop cycle. This payment plan will be repeated for the 2007/08-fall/winter crop. The GOM policy is that farmers with production areas of between one and five hectares will receive 1,160 pesos per hectare (approximately U.S. $106.91/ha) and 963 pesos/ha to farmers with more land (roughly U.S. $88.77/ha). The GOM has yet to announce the payment amount for the 2008 spring/summer crop cycle. Reportedly, it will be similar to what was granted in the last crop cycles.

Recently, SAGARPA announced in the media some supports to corn and sorghum buyers, mainly for the animal feed sector. These supports are part of its Forward Contracts and Advance Purchasing Programs (see MX7024 & MX7071) and will be provided for the 2007/08 fall/winter crop cycle. SAGARPA will support a total volume of 4.0 MMT with a payment of 200 pesos/MT (U.S. $ 18.43/ton). The breakdown of these supports by product is below.

GRAIN	VOLUME (MILLION MT)
Sorghum	2.0
White Corn	1.5
Yellow Corn	0.5
Total	4.0

These supports will be for purchases from the states of Sinaloa, Tamaulipas, Baja California and Sonora. Similarly, there will be a support of 50 percent for the "PUT" coverage cost. However, it should be noted that SAGARPA still has yet to announce these supports officially in Mexico's Federal Register (Diario Oficial).

The GOM continues to encourage forward contract purchases between farmers and yellow corn buyers in an attempt to influence production patterns. According to SAGARPA sources, total yellow corn production was approximately 1.330 MMT (planted on 364,000 hectares) in the CY 2005 and 1.718 MMT (planted on 425,684 hectares) in CY 2006. However, since 2007, the program has been facing new challenges. Official sources have acknowledged that Mexican farmers continue to cultivate white corn largely because of tradition and resistance to change, and because the yields of yellow corn are lower compared to the white variety. Growers have also pointed out the lack of supports to acquire yellow corn seeds. Industry sources state that SAGARPA provided free seed to plant near 12,000 hectares of yellow corn in the 2006/07 fall/winter crop cycle in Sinaloa (although the original goal was to plant 50,000 hectares). However, industry and government sources stated that no more than 7,000 hectares were planted. SAGARPA did not provide any yellow seed support for the 2007/08 fall/winter crop cycle.

Consumption

MY 2007/08 total corn consumption is forecast at 34.1 MMT, a 2.1 percent increase over last year. The expected increase in total corn consumption reflects an increase in human and industrial consumption as well as feed consumption. This has been driven primarily by population growth (1.14 percent) and the still relatively strong demand by the feed industry. White corn varieties, which are mainly used for human consumption, continue to dominate domestic production. Corn is the most important staple crop in Mexico, with consumption of corn and tortillas accounting for about 47 percent of average caloric intake. Although per capita tortilla consumption fell 16.5 percent between 1998 and 2004 (from 78.5 kilograms to 65.5 kilograms), it is still the most important component of the Mexican diet.

Based on World Bank information, since the mid 1990's Mexican corn production has moderately outpaced population growth, but over the same period there were dramatic increases in total consumption and imports largely to meet demand for corn as animal feed. Imports, virtually all of which come from the United States, increased from approximately seven percent of domestic production in 1991-93 to nearly 50 percent in 2005-07. It is expected to increase even more over the next five years. Similarly, animal feed accounted for less than five percent of total consumption prior to 1990 but now represents more than half of all consumption and is rising.

Private sources state that demand for yellow corn (mainly imported) should continue to grow in MY 2008/09 albeit at a slower rate than previous years since the feed sector continues to grow. The poultry sector, for example, continues to be the major consumer of feed corn and sorghum, and is expected to grow by approximately 3.5 percent in MY 2008. Other

important end-users of yellow corn include the swine and wet-milling industries. Domestic feed demand is forecast at 18.1 MMT for MY 2008/09. For MY 2007/08, the domestic feed consumption estimate was increased slightly according to private source information. The consumption estimate for MY 2006/07 remains unchanged.

Eventually, another end-user of white corn could be the ethanol industry, which will start operations for the first ethanol plant in Mexico (located in Navolato, Sinaloa) in May 2008. With a total investment of U.S. $ 50 million, this plant will consume approximately 270,000 MT of white corn and sorghum annually to achieve a production of 30 million gallons of ethanol, 100,000 MT of Distillers Dried Grains with Solubles (DDGS) and 100,000 liters of dioxide of carbon. Initially, the production of ethanol will be exported to United States.

Trade

Imports are forecast to grow approximately 5.5 percent in 2008/09 to 11.4 MMT, driven by population growth and a slightly increased demand from the livestock and starch sectors. Given the importance that weather plays in Mexican agricultural production, wide fluctuations (from 1-2 MMT) can be expected in import volumes. The import estimate for MY 2007/08 was adjusted upwards due to lower domestic production than previously estimated. The import figure for MY 2006/07 was revised upward, reflecting final official data of the Economy Secretariat (SE). Similarly, export figures for MY 2006/07 and 2007/08 have been increased based on final SE's official data for the first year and private sources for the second year.

In light of the recent liberalization of the corn market under NAFTA, U.S. corn exports are under increased scrutiny. Recent Mexican press reports have headlined the fact that U.S. corn exports to Mexico increased dramatically in January 2008 compared to the same month in previous years. Many of the articles have also cited commentary from some Mexican industry participants that this increase is due to the ending of tariffs and tariff-rate quotas, and is direct proof that U.S. corn will flood the Mexican market due to tariff liberalization. However, a deeper examination of the figures shows that overall U.S. corn and coarse grain have not entered Mexico at an unusually high rate and that an increase in corn exports in January was to be expected due to changes in import procedures. Essentially, the market saw a shift to traditional yellow corn purchases in January 2008 from the previous January where buyers imported cracked corn as a substitute for traditional yellow corn imports, which were restricted under NAFTA's implementation phase. (See reports MX8010 and MX7024.)

Stocks

Mexico's ending stocks are forecast to decline to approximately 2.689 MMT in MY 2008 from the revised estimation of MY 2007, thereby maintaining a low stock-to-use ratio. The estimated MY 2006 ending stocks were revised upward due to higher-than-previously estimated domestic production. This increase in the carry over of MY 2006 affected the ending stocks estimate of MY 2007, which also increased.

Policy

Since the implementation of NAFTA on January 1, 1994, the over-quota bound tariff on corn was reduced from 206.4 percent to 18.2 percent, and the TRQ increased from 2.5 MT to 3.672 MMT for CY 2007. At the same time, Mexico converted its import licensing system to a transitional tariff rate quota for the U.S. and Canada. The TRQ remained in effect until December 31, 2007, and trade was fully liberalized on January 1, 2008. Likewise, the United States eliminated the 0.2 cents per kilogram tariff on corn imported from Mexico.

Despite the agreed upon NAFTA bound tariffs for white and yellow corn, the GOM customarily issued additional import permits beyond the amount required by the free trade agreement. Some industry sources have stated that this means that the North American corn market has already integrated because all demand was supplied and no tariffs have been paid on over-quota imports. Similarly, these sources estimate that the United States will remain the main supplier of corn to Mexico for the foreseeable future.

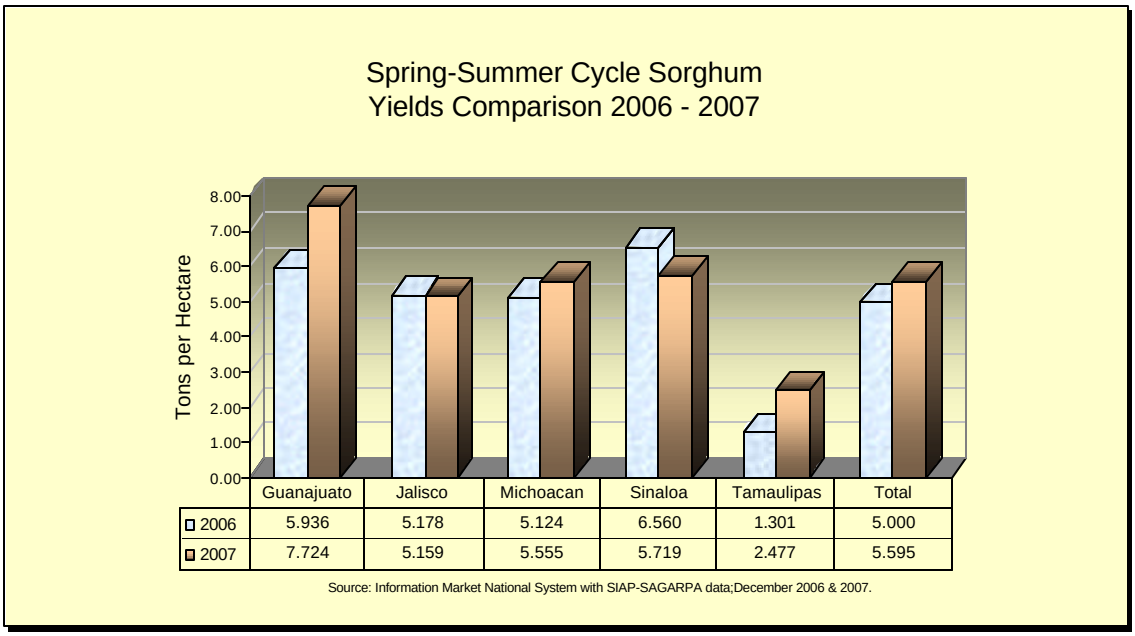
SORGHUM

Production

MY 2008/09 sorghum production is estimated at 6.45 MMT, a 2.3 percent increase over last year's revised estimated production. This increase is due to an expansion of harvested area, assuming normal weather conditions. Various industry and GOM sources have indicated that Mexican farmers are expected to increase plantings approximately 2.8 percent in the coming year in response to higher sorghum prices. According to the National Agricultural Council (C.N.A.), a 41 percent increase in the price of yellow corn has led to an increase of 40 percent in the price of sorghum between January 2006 and April 2007.

Moreover, some traders and buyers indicate that the price for sorghum is expected to continue with this trend during MY 2008/09. As a result, some farmers have opted to plant sorghum instead of alternative crops such as dry beans. Two additional factors, other than profit potential, have encouraged these plantings: sorghum is more resistant to dry weather conditions and it has a relatively shorter crop cycle compared to corn. The predominant factor in sorghum production continues to be weather related, given that over 71 percent of Mexico's sorghum production area is non-irrigated. Despite this, several sources agree that there will be a slight jump in sorghum plantings due to attractive prices. However, yields are forecast to be slightly lower due to the use of underdeveloped land for increased plantings.

Weather during the 2007 spring/summer crop cycle was favorable mainly in Guanajuato and Michoacan (approximately 55 percent of the spring/summer production is located in these states along with Jalisco). The favorable weather conditions and timely rains allowed relatively higher yields compared to the same crop cycle the previous year. The graph below illustrates the difference in the 2006 vs. 2007 spring/summer crop yields in the main sorghum producing states, with data as of December 31, 2007.



Due to revised SAGARPA data, and preliminary information from private sources, the estimates for sorghum production and harvested area for MY 2006/07 and MY 2007/08 have been adjusted upward.

Sorghum production continues to be spread throughout the country with the largest producing states in 2007 being Tamaulipas, Guanajuato, Michoacan, Sinaloa, Nayarit and Jalisco. Tamaulipas, for example, is expected to produce approximately 31.7 percent of total production in MY2007/08.

SAGARPA data on sorghum production costs is outdated and continues to be limited to only a few states. In Tamaulipas, for example, costs vary between 4,381 – 8,235 pesos/ha (U.S. $ 405 - $767/ha), depending on whether the land is irrigated. Due to its quality and proximity to demand centers, the animal feed sector has preferred to purchase the Bajio sorghum crop more than the Tamaulipas fall/winter crop. In order to encourage the purchasing of Tamaulipas sorghum, SAGARPA recently announced in the media some supports to sorghum buyers (mainly for the animal feed sector). These supports are part of its Forward Contracts and Advance Purchasing Programs (see MX7024 & MX7071) and will be provided for the 2007/08 fall/winter crop cycle. According to the media announcement, SAGARPA would support 2.0 MMT of sorghum with a payment of 200 pesos/MT (U.S. $18.43/ton). Similarly, there would be a support of 50 percent of the "PUT" coverage cost. It should be noted, however, that SAGARPA still has not announced these supports officially in the Mexican Federal Register (Diario Oficial).

Under PROCAMPO, (the Mexican domestic agricultural support program) a flat-rate payment on corn, sorghum, wheat, rice, and dry beans was provided to farmers for the 2007 spring/summer crop cycle. This payment plan will be repeated for the 2007/08-fall/winter crop. The GOM policy is that farmers with production areas of between one and five hectares will receive 1,160 pesos per hectare (approximately U.S. $106.91/ha) and 963 pesos/ha to farmers with more land (roughly U.S. $88.77/ha). The GOM has yet to announce the payment amount for the 2008 spring/summer crop cycle. Reportedly, it will be similar to what was granted in the last crop cycles.

Consumption

The forecast for sorghum consumption in MY 2008/09 is 8.3 MMT, an increase of approximately 1.2 percent. The two main factors for this increase include the substitution of wheat for sorghum and the slight increased demand from the livestock sector. Traders and buyers indicate that as result of high wheat prices, some farmers in the northwest of the country, who traditionally consume part of their crop for animal feed, will substitute it for sorghum. Moreover, growth near three percent is expected in feed consumption as the outlook for the poultry sector continues to be optimistic for 2008. The poultry industry is the major consumer of sorghum in Mexico, and consumes it primarily in the form of mixtures and feed concentrates. The sorghum consumption estimate for MY 2007/08 has been revised downward, based on the most recent information from private sources.

Trade

The import estimate for MY 2007/08 has decreased to 1.8 MMT due to a higher-than-previously estimated domestic production. The reduction in imports is also due to the price increase that has been seen in imported sorghum. According to trade sources, the price of U.S. sorghum has increased nearly 20 percent in the last 12 months (i.e. U.S. sorghum No.2 situated in the export port of north Texas and New Orleans) due to the strong demand of some EU countries (Spain and France), which traditionally do not import U.S. sorghum but wheat, instead. Reportedly, higher wheat prices have led these countries to import U.S. sorghum for animal feed. Imports for MY 2008/09 are forecast to increase slightly to 1.85 MMT. The MY 2006/07 import estimate has been decreased to 1.882 MMT based on final official trade data issued by the SE.

Stocks

Despite a minimal increase in harvested area and imports, ending stocks for MY 2008/09 are forecast to remain the same as the previous year's estimate due to an increase in feed consumption. The ending stock estimate for MY 2006/07 has been reduced, from previous estimates, based on the most recent information from private sources.

DRY BEANS

Production

The dry edible bean production in Mexico is expected to rebound from 1.1 MMT in MY 2007/08 to 1.2 MMT in MY 2008/09 because of greater harvested area with the assumption of more favorable weather conditions. MY 2007/08 production and harvested area estimates have been revised downward due to three main factors:

- Unfavorable growing condition this past year, which was characterized by dry conditions. In Zacatecas, for example, preliminary official estimates indicate that the 2007-spring/summer crop (250,000 MT) declined by roughly 40 percent compared to the same crop a year earlier. At least part of this decline is attributable to the 100,000 hectares of dry bean production land damaged by the uncharacteristically dry weather. The total damaged area for the 2006-spring/summer crop in Zacatecas was 9,521 hectares.

- The continuation of a Government of Mexico (GOM) conversion program, which works to move less productive hectares into forage crops as well as malting barley (see MX7024 & MX7085). In Zacatecas, for example, growers planted 561,570 hectares of

dry beans in the 2007 spring/summer crop cycle, which is seven percent lower than the same cycle a year ago or approximately 41,000 hectares.

- A shift from dry beans to corn production, due to higher corn prices.

MY 2006/07 production estimates and harvested area were revised to reflect the final figures issued by SAGARPA.

The states of Zacatecas, Durango, and Sinaloa, account for 50 percent of total bean production in Mexico and together with Chihuahua, Chiapas, and Nayarit they account for approximately 70 percent. Each state specializes in different varieties because of soil conditions, technological packages, and access to various markets. For example, commercial black bean production is basically concentrated in Zacatecas, Durango, and Chiapas. Most commercial production is found in Zacatecas and Durango because black beans are the most drought and pest resistant (see MX7085). This means that the crop is transported long distances to main markets. Sinaloa mainly grows light-colored beans, which fetch higher prices because they have greater access to niche markets in urban areas and are of a better quality. More than 70 varieties of common beans grown in Mexico fall into three general categories: black, pinto, and light-colored. Of these three groups, light-colored beans includes the largest number of varieties, including *flor de mayo, flor de junio, bayo, azufrado hidalguillo*, *peruano,* and *mayocoba*. About half the beans produced in Mexico are light-colored beans, 30 percent are black beans, and about 20 percent are pinto beans.

For the 2007/08 fall/winter crop cycle in Sinaloa, SAGARPA reports a total bean planted area of 93,006 hectares, which is 17 percent greater than the same cycle a year ago. Production is expected to reach 156,500 MT in this state. Harvesting began in February and is expected to end in March. Growers have experienced some weather problems because of low temperatures during the nights and heat during the days, which has caused several plant disease problems. Growers estimate a reduction in the yield from 1.777 MT/ha last year to 1.461 MT /ha in the upcoming harvest due to weather problems.

Nayarit reports a bean planted surface of 50,391 hectares, with an expected production of 64,911 MT. Of this production, the majority are Jamapa Black. The rest of the production corresponds to colored beans (Azufrados, Mayocobas, and other clear and pink varieties). Reportedly, sowing conditions were good, the weather is favorable, and farmers nearly reached their intended plantings and yields. Harvesting should begin in the first two weeks of March.

According to SAGARPA's new methodology to estimate dry bean input costs, prices vary widely depending on location and whether the production area is irrigated. The following table is an outline of the available information on total input costs for dry bean production in different states and crop cycles.

DRY BEANS PRODUCTION COST BUDGET FOR SEVERAL STATES & CROP CYCLES (PESOS PER HECTARE)			
State	**2005 Spring/Summer**	**2006 Spring/Summer**	**2007 Spring/Summer**
Chihuahua*	2,557.00	5,421.20	5,772.6

	2005/06 Fall/Winter	**2006/07 Fall/Winter**	**2007/08 Fall/Winter**
Nayarit**	7,735.00	7,925.00	8,195.07
Sinaloa***	14,949.00	18,736.68	21,101.00

** Non-irrigated area, hybrid seed and fertilizer*
*** Irrigated area using gravity irrigation system, non-hybrid seed and fertilizer*
****Irrigated area using gravity irrigation system, hybrid-seed and fertilizer*
Exchange Rate as of February 28, 2008:U.S. $1.00 = 10.77 Pesos
Source: SIAP/SAGARPA

The overall yield for the MY 2008/09 is forecast at about 0.769 MT/ha, which is higher than the average obtained in MY 2007/08. Dry beans harvested during the 2007 spring/summer crop cycle are reportedly of low quality due to the previously mentioned drought.

On November 14, 2007, SAGARPA announced the program to support dry bean farm-gate prices for the 2007 spring/summer cycle. This program was established in CY 2003 to support bean growers in Zacatecas, Durango, Chihuahua, and San Luis Potosi (see MX7024 & MX6019). This year, the program will pay 5.5 pesos/kg (U.S. $ 0.51/kg) and will support 113,000 MT. This volume represents nearly 17 percent of the production in the main producing states. Through this program, dry beans are delivered to private warehouses, and the established price is paid (i.e. 5.5 pesos/kg) in full to the producer. According to official sources, the program will have a budget of 460 million pesos this year (roughly U.S. $43 million), and it should ease the transition of NAFTA's trade opening in 2008.

Under PROCAMPO, (the Mexican domestic agricultural support program) a flat-rate payment on corn, sorghum, wheat, rice, and dry beans was provided to farmers for the 2007 spring/summer crop cycle. This payment plan will be repeated for the 2007/08-fall/winter crop. The GOM policy is that farmers with production areas of between one and five hectares will receive 1,160 pesos per hectare (approximately U.S. $106.91/ha) and 963 pesos/ha to farmers with more land (roughly U.S. $88.77/ha). The GOM has yet to announce the payment amount for the 2008 spring/summer crop cycle. Reportedly, it will be similar to what was granted in the last crop cycles.

As already mentioned, the GOM, through its Bean Reorganization Program (see MX5022; MX6019 and MX7085), has continued to support bean farmers by offering certified seed, subsidies for the adoption of improved machinery/technology (i.e., combines and packing plants) and reduced diesel prices. Similarly, the GOM continues to work to move marginal bean areas into other products such as grains and grasses with the conversion program. This program has been relatively successful in the main producing states such as Zacatecas and Chihuahua (see MX7085). However, according to industry sources, the main problems with the current public policies on dry beans are:

- There is no long-term perspective;
- Programs are not coordinated and often have conflicting effects;
- Programs are limited and only benefit approximately 25 percent of growers;

- Programs for commercialization and reconversion need to be redefined.

The consequences of these problems are:

- A significant portion of the benefits from subsidies end up going to "middlemen" and distributors because they are able to buy from grower organizations at a price that discounts the subsidies the growers receive, although only about 25 percent of growers even receive that support. The structure of the market allows a high degree of concentration in buying and packing, whereas growers are typically dispersed. This may explain the drastic differential between consumer and producer prices.
- The commercialization support given by the GOM (ASERCA) to some distributors or storage facilities has also created market disruptions. Those that receive the subsidy are able to sell their stocks cheaper, driving down the market price even for distributors that do not receive a support. This may be causing losses for all distributors in terms of price, storage, and financial expenses.

Consumption

The forecast for dry bean consumption in MY 2008/09 is 1.33 MMT, an increase of only 1.1 percent. This slight increase is primarily driven by population growth. However, consumption estimates for MY 2006/07 and MY 2007/08 are slightly down from previous estimates due to an emerging middle class that is changing their consumption habits. Although beans are consumed throughout Mexico, not all varieties are consumed everywhere. Consumption trends depend on quality, consumer preferences, and tradition. These differences help explain the enormous price range among varieties. For example, in Mexico City, or other markets, some varieties of light-colored beans, such as "*peruanos"* and "*azufrados"*, cost twice as much as black beans grown in Zacatecas. Black beans are the main type consumed in southern Mexico and are virtually the only variety consumed in the Yucatan peninsula, whereas light-colored beans are preferred in the northwestern states. In central Mexico, especially the Mexico City area, all kinds of dry beans are consumed. Although there are no public statistics on consumption trends, these preferences are well known among authorities, distributors, and producers.

Trade

Imports are forecast to increase 10,000 MT in MY 2008/09 from the previous year's revised general estimate. However, import estimates for MY 2007/08 have been revised downward due to a decline in demand. It should be noted that the import estimate for MY 2007/08 reflects end-of-the year data from the SE. Similarly, the import figure for MY 2006/07 was revised slightly upward based on final SE's official data. Export estimates for MY 2006/07 and MY 2007/08 have been adjusted upward, reflecting SE final data. According to principal bean traders, the market share of imported beans will continue to increase at a consistent rate between one and two percent per year, since they are preferred by a niche market because they are cleaner and faster to cook.

Stocks

MY 2008/09 ending stocks are forecast to decrease to 35,000 MT from the previous year due to a slight increase in consumption this year because of higher prices for other protein sources and an expected slowdown in the economy. However, ending stock estimates for 2007/08 have been adjusted upward due to lower-than-previously estimated consumption in earlier years. The ending stock estimate for MY 2006/07 has been increased, from previous estimates, based on the most recent information from private sources.

Policy

On January 1, 1994, in accordance with NAFTA, Mexico converted its import-licensing regime for the United States and Canada to a transitional TRQ. The U.S. TRQ grew at a 3-percent annual rate over the 15-year transitional period, which ended in December 31, 2007. Since 1994, the over-quota tariff for dry beans dropped from 127.8 percent to 11.8 percent.

The elimination of tariffs on dry beans under NAFTA is not expected to have a major impact on the Mexican dry bean market, as some have feared because:

- Imported beans supply only a small part of domestic consumption (approximately 10-percent in the last few years);
- Dry bean prices in the United States are increasing, which is likely to offset or exceed the effect of eliminating tariffs;
- The United States does not compete in the market for light-colored beans, which accounts for about 48 percent of Mexico's production.

WHEAT

Production

Total Mexican wheat production for MY 2008/09 is forecast at 3.55 MMT, only slighter higher than the previous year's revised estimate. Despite an increase in area harvested, production is forecast to increase only minimally due to the augmented prices on additional inputs, such as certified grain seeds and the elevated cost of electricity for water pumping. Official and private sources have stated that global wheat production could suffer this year due to weather problems and could create lower yields for farmers with inadequate and/or costly water sources. However, Mexico's durum wheat producing region in the northwest of the country could offset that scenario for MY 2008/09 with beneficial weather and an increase in water availability. The bread wheat producing states of the central plateau also report sufficient water availability and the application of additional inputs to improve yields; thus improving production expectations for MY 2008/09. As a result of beneficial weather, MY2007/08 forecast figures were revised upward to 3.53 MMT. Moreover, the current world situation on grains, with increased prices and low inventories in producing and exporting countries, is enticing producers to consider bringing back idle wheat lands. Mexican wheat production for MY 2007/08 is also revised upward from our previous estimate due to sufficient water supply and better inputs. Production for MY 2006/07 reflects official data.

Overall harvested area for wheat in MY 2008/09 is forecast to increase to 680,000 hectares due to high international prices encouraging expanded growth. Harvested area for MY 2007/08 is revised upward from our previous estimate as farmers returned to planting wheat based on ample water supply and beneficial weather. Harvested area for MY 2006/07 reflects official data.

AVERAGE WHEAT PRICES PAID TO PRODUCERS PESOS/METRIC TON		
MONTH	2006	2007
JANUARY	—	—
FEBRUARY	—	—
MARCH	—	—
APRIL	—	—
MAY	1,737	2,200
JUNE	1,650	1,963
JULY	1,600	—
AUGUST	—	—
SEPTEMBER	—	—
OCTOBER	—	—
NOVEMBER	—	—
DECEMBER	—	—

Source: National information market service, (SNIIM)

Consumption

For MY 2008/09, post forecasts a 1.8 percent increase over the previous year's revised estimate due to continued growth in preferences among consumers for wheat-baked goods despite the increase price of products to the final consumer. The MY 2007/08 total consumption estimate increased slightly as a result. However, on the feed consumption side the picture is completely different due to higher wheat prices. Sources indicate that farmers in the northwest of the country, who traditionally use part of their crop for animal feed, will substitute it with sorghum. Consumption for MY 2006/07 reflects official data.

Trade

Imports for MY 2008/09 are forecast at 3.65 MMT, 1 .4 percent higher than the previous year's revised estimate of 3.60 MMT. This increase is largely driven by the Government of Mexico's intention to open the border to imports from all countries at preferential tariff rates in an effort to avoid increases in the domestic price of wheat-based products. Imports for MY 2007/08 were kept unchanged reinforced by more current information from industry and government sources. Imports for MY 2006/07 reflect official data. The United States and Canada continue to be the main wheat suppliers to Mexico. Naturally, prices will play a large role in deciding the source of imports. Private sources indicate that the FOB price in Mexico is between USD $350-380 per MT while two years ago the price was between USD $190-200 per MT.

Mexican wheat exports for MY 2008/09 are forecast to increase 16 percent to 664,000 MT, due to record high international prices and world stocks reported at a 30-year low. In addition, the GOM has announced they will provide support for the exportation of wheat. Even with high international prices, sources indicate several countries are willing to import wheat due to extremely low reserves, a poor crop year and export embargoes by other main wheat producing countries. MY 2007/08 and MY 2006/07 export forecasts have increased reflecting current statistical data.

Stocks

MY 2008/09 ending stocks are forecast to decrease from the previous year's revised estimate due to an increase in exports because of high international prices. Ending stocks in MY 2007/08 are forecast to decrease to 444,000 MT. MY 2006/07 ending stocks reflect official data.

Marketing

U.S. wheat prices must stay competitive in order for U.S. producers to maintain their current market share. Furthermore, wheat consumption in Mexico should be stimulated by market development activities that focus on consumer use of wheat products (bread, cookies, etc.). Also, close contact should be maintained with industry and government personnel in charge of regulatory functions so that grades, standards, and phytosanitary regulations do not impede wheat trade between the U.S. and Mexico.

RICE

Production

Rice production for MY 2008/09 is forecast to remain stable at the previous year's estimated level of 185,000 MT (milled basis), mainly due to the same level of area planted, a decaying agricultural infrastructure, land degradation, untimely financial support, and increased imports. At best, rice production will remain stable or will gradually increase over the next few years.

However, some of the idle lands devoted to rice production are being brought back into production and will be supported by private monetary resources and new technology. Private sponsored programs and cutting edge technology will be applied to approximately 20,000 hectares and could spur domestic production. In light of high international prices, domestic rice producers are being enticed to increase production since it is considered a profitable activity for MY 2008/09.

Even though the Government of Mexico has implemented support schemes to reach producers to cope with external factors, the MY 2007/08 area harvested and production was only revised upward slightly from the previous estimate due to the limited impact of such programs. Moreover, the lack of a post-harvest infrastructure (warehousing) has not encouraged increased harvested acreage or production. Harvested area and production for MY 2006/07 remains unchanged reflecting official data.

Given that most rice production in the major growing regions is irrigated, average yields are expected to remain at about 5.03 MT/hectare with yields in Veracruz slightly higher, which could reach up to 8 MT/hectare. However, given the increase in input costs, many producers may not have the financial resources to acquire certified seed or renew their infrastructure. Thus, in certain areas yields may be lower than in previous years.

According to official figures, during 2007, prices paid to producers ranged from U.S. $174 in January 2007 to U.S. $220 in June 2007, but the average price during 2007 was U.S. $193 per MT. At the beginning of 2008, prices ranged between U.S. $178 – $194 per MT.

Consumption

MY 2008/09 rice consumption is forecast at 825,000 MT. This steady consumption pattern is due to the fact that rice continues to be a staple food for the majority of medium to low income households. MY 2007/08 consumption estimates have been revised upward from our previous estimate, reflecting more accurate and current data from the industry. Consumption for MY 2006/07 reflects official data.

Trade

Imports in MY 2008/09 are forecast to slightly increase compared to MY 2007/08 due to insufficient domestic production relative to consumer demand. Also, exporting countries are diversifying their export patterns to countries, which did not import significant amounts in the past, by developing new market niches in the ready to eat segment, such as sushi and gourmet dishes. Even though MY 2007/08 production slightly increased, rice imports were revised upward since there was still not enough supply to cover consumer demand. Imports for MY 2006/07 reflect official data.

Exports in MY 2008/09 are forecast to show a slight decrease compared to figures from MY 2007/08 in order to be more consistent with past exported volumes. According to the latest official data, MY 2007/08 export figures reached 12,000 MT. Even though Mexico is a net grain importer, exports to the United States are increasing due to an increased demand for traditional rice by the Mexican population living in the United States. This specific flavor cannot be fulfilled by the long grain varieties from other countries. Exports for MY 2006/07 remain unchanged.

Stocks

Ending stocks are forecast to maintain the same levels in MY 2008/09 as those from MY 2007/08 at 200,000 MT. Rice mills generally keep between one and two months supply of imported rice in stock. However, due to insufficient domestic production, mills will increasingly look to imports for supplies, especially during the traditional short supply months of April, May, June and July. Ending stocks for MY 2007/08 are revised upward to 200,000 MT due to increased imports. Ending stocks for MY 2006/07 reflect official data.

Policy

As previously reported, on September 11, 2006, the Secretariat of Economy (SE) published the final resolution of Mexico's antidumping investigation on U.S. long-grain white rice. Mexico undertook the investigation after the December 2005 WTO ruling that Mexico had not properly conducted the previous investigation that led to the imposition of antidumping duties against the United States. In this final resolution, the SE revoked all previous duties, concluding that the imports during the referenced period did not constitute price discrimination, and thus did not cause damage to the domestic rice sector. (See MX6076.)

Marketing

Taking into consideration the increasing concerns on health issues, some private industries within the rice sector are promoting the beneficial nutritive and flavor qualities of imported varieties to be used in confectionary and gourmet dishes that are on the upswing among medium to high income households. However, the consumption of traditional domestic rice in lower income areas of the country is also being promoted.